RECORD AND BRIEF

No. 15-1189

IN THE

Supreme Court of the United States

IMPRESSION PRODUCTS, INC.,

Petitioner,

v.

LEXMARK INTERNATIONAL, INC.,

Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF OF *AMICI CURIAE* INTELLECTUAL PROPERTY PROFESSORS AND AMERICAN ANTITRUST INSTITUTE IN SUPPORT OF PETITIONER

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INTEREST OF *AMICI CURIAE*

Amici law professors, listed in the Appendix, are academics who study intellectual property and innovation.[1] Their interest in this case stems from their professional academic interest in guiding the development of law in the way that most benefits society. *Amici* have no personal interest in the outcome of this case.

Amicus the American Antitrust Institute (AAI) is a nonprofit education, research, and advocacy organization devoted to advancing competition in the economy, protecting consumers, and sustaining the vitality of the antitrust laws. The AAI has long recognized the important role that exhaustion doctrine plays in facilitating competition in product markets driven by intellectual property, including aftermarkets. *See, e.g.*, Brief for *Amicus Curiae* American Antitrust Institute in Support of Petitioners, *Quanta Comput., Inc. v. LG Elecs., Inc.*, 553 U.S. 617 (2008) (No. 06-937).

SUMMARY OF THE ARGUMENT

The Federal Circuit has strayed from this Court's guidance on core exhaustion issues and eviscerated

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[1] Pursuant to Rule 37.2(a), counsel for both parties received notice of intent to file this brief at least 10 days before its due date. The parties have consented to the filing of this brief; their written consents are on file with the Clerk. No counsel for a party authored this brief in whole or in part, and no party or counsel for a party made a monetary contribution intended to fund its preparation or submission. No person other than the *amici* or their counsel made a monetary contribution to the preparation or submission of this brief.

important limits on patent holders' rights, which limits are necessary to protect the public interest.

A patent should provide only enough insulation from competition to incentivize innovation. Once a patentee has received his reward, this Court's precedent encourages public use and dissemination of patented articles through patent exhaustion doctrine, which limits a patentee's ability to control downstream purchasers after placing a patented article in the stream of commerce. Having authorized the first sale of a patented article, a patentee's rights in the subsequent use of that article are no greater than if it had never been patented.

The Federal Circuit below radically reconceptualized this longstanding doctrine as a mere presumption of authority, which conflicts with this Court's common-law precedent going back over 150 years. Under the Federal Circuit's reading, exhaustion doctrine is merely a default arrangement that a patentee can change with questionably effective contract terms—or even unilateral pronouncements—not a hard-and-fast limit on a patentee's rights. But *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617 (2008), clarified that any authorized sale exhausts patent rights and that any conditions on sale, if they amount to valid agreements, are properly enforced via contract, not patent, law.

The Federal Circuit similarly lost sight of exhaustion's core purpose when it held that foreign sales authorized by the U.S. patentee never exhaust U.S. patents. This holding clashes with this Court's opinion in *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013), which rejected the idea that

international exhaustion implicates extraterritoriality and reaffirmed the common-law principles against restraints on alienation that animate both copyright and patent exhaustion.

These holdings represent significant deviations from this Court's precedent. Reviewing this case would offer this Court the optimal opportunity to ensure that such deviations come only from the Supreme Court.

ARGUMENT

I. Exhaustion Is an Important, Longstanding Doctrine That Promotes Diffusion of Technology Through Channels of Commerce

The time-honored doctrine of patent exhaustion provides that once a patented article is sold by the patentee or someone authorized by the patentee, the patentee's rights in that article are spent. The purchaser may subsequently use or dispose of the article the same way he can dispose of his other, unpatented possessions. Exhaustion is deeply rooted in common-law policies against double recovery and restraints on alienation, and it places important limits on the rights the public grants a patentee in exchange for his invention.

Double recovery may occur where a patentee extracts a royalty at two stages of the distribution chain: once when the patented article is first sold, and again when it is resold. Where this results in the patentee recovering more than one monopoly rent, it overcompensates the patentee in relation to the societal benefit he has provided. As this Court has recognized, "the primary purpose of our patent laws is not the creation of private fortunes for the owners

of patents, but is 'to promote the progress of science and the useful arts.'" *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 511 (1917) (quoting U.S. Const. art. I, § 8, cl. 8). Exhaustion doctrine arose to limit patentees' rights to those necessary to incentivize innovation. A patentee has substantial control over the first sale of a patented article, but once he has extracted one monopoly royalty, patent doctrine encourages dissemination of that particular product to the public. *See Bloomer v. Millinger*, 68 U.S. 340, 350 (1863) (stating that "[patentees] are entitled to but one royalty for a patented machine").

A clear exhaustion rule also promotes the alienability of patented articles and reduces transaction costs. Unlike clear, reliable property rights, idiosyncratic arrangements of rights that depend on what covenants or conditions an upstream seller has attached to a chattel impose high information costs on purchasers. *See* Zechariah Chafee, Jr., *The Music Goes Round and Round: Equitable Servitudes and Chattels*, 69 Harv. L. Rev. 1250, 1261 (1956); Thomas W. Merrill & Henry E. Smith, *Optimal Standardization in the Law of Property: The* Numerus Clausus *Principle*, 110 Yale L.J. 1, 26-28 (2000). Consequently, the law has almost uniformly found personal property servitudes unenforceable. *See* Molly Shaffer Van Houweling, *The New Servitudes*, 96 Geo. L.J. 885, 906 (2008). Post-sale restrictions on patented articles present the same concerns, and this Court has rejected them for the same reasons. *See Straus v. Victor Talking Mach. Co.*, 243 U.S. 490, 501 (1917) ("[I]t must be recognized that not one purchaser in many would read such a notice, and that not one in a much

greater number, if he did read it, could understand its involved and intricate phraseology . . . ."); *see also* Samuel F. Ernst, *Patent Exhaustion for the Exhausted Defendant: Should Parties Be Able to Contract Around Exhaustion in Settling Patent Litigation?*, 2014 U. Ill. J.L. Tech. & Pol'y 445, 472 (describing information costs associated with multiple royalty transactions).

This Court has recognized this affirmative policy on the free movement of goods as the rationale behind exhaustion in the context of both use and geographic restrictions. *See Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1363 (2013) (emphasizing in the copyright context "the importance of leaving buyers of goods free to compete with each other when reselling or otherwise disposing of those goods").

This Court has consistently refused to enforce patentees' post-sale restrictions. *See, e.g.*, *Straus*, 243 U.S. at 500-01 (invalidating a price-fixing "license notice" attempting "to sell property for a full price, and yet to place restraints upon its further alienation, such as have been hateful to the law from Lord Coke's day to ours, because obnoxious to the public interest").

Similarly, this Court has recognized that geographic restraints on alienation offend the public's interest in dissemination of patented goods. *See Adams v. Burke*, 84 U.S. 453 (1873); *Keeler v. Standard Folding-Bed Co.*, 157 U.S. 659 (1895). In both *Adams* and *Keeler*, the patentees had assigned the rights to make, use, and sell patented articles to different manufacturers in different U.S. regions. Yet this Court held that when a purchaser bought

patented articles from a manufacturer with rights in one locality, and subsequently used or sold them in another manufacturer's locality, the second manufacturer had no rights against the user or reseller, *Keeler*, 157 U.S. at 666 ("[O]ne who buys patented articles of manufacture from one authorized to sell them becomes possessed of an absolute property in such articles, unrestricted in time or place."); *Adams*, 84 U.S. at 456-57, because "[t]he inconvenience and annoyance to the public that an opposite conclusion would occasion are too obvious to require illustration," *Keeler*, 157 U.S. at 667. Furthermore, in *Kirtsaeng*, this Court held that copyright's first-sale doctrine cannot be read to incorporate geographic distinctions in light of the common-law policy against personal property servitudes, *Kirtsaeng*, 133 S. Ct. at 1363, which policy similarly drives patent law.

II. The Federal Circuit's Opinion Below Radically Reconceptualizes the Exhaustion Doctrine in a Way That Departs from This Court's Established Precedent and Vitiates the Doctrine

The Federal Circuit below abandoned this long-standing limit restricting the rights of patentees to exercise downstream market control over patented articles released into the stream of commerce. It wholly reconceptualized exhaustion from a bedrock policy against restraints on alienation to a mere "presumption" of "authority" which patentees can revoke just by saying so. This unwarranted transformation vitiates the exhaustion doctrine as articulated by this Court.

The Federal Circuit decided that the exhaustion doctrine is textually tied to the word "authority" in

§ 271 of the 1952 Patent Act, such that the question of what is and what is not infringement depends only on what authority the patentee has granted. In its view, "[i]f ordinary congressional supremacy is to be respected, exhaustion doctrine in the Patent Act must be understood as an interpretation of § 271(a)'s 'without authority' language;" therefore, because "nothing in § 271(a) constrains the patentee's choices about whom to grant the required authority, if anyone, or about which acts . . . to authorize," no such constraints exist. Pet. App. 24a. This logic suggests that any post-sale restriction, whether enforceable as a contract or not, effectively defeats exhaustion.

But the Federal Circuit's reasoning ignores that the exhaustion doctrine is grounded in nearly 150 years of this Court's precedent, not in the text of the 1952 Patent Act.

The 1952 statute was enacted against the background of this Court's established exhaustion doctrine. The fact that Congress did not choose to codify that doctrine does not mean that more than a century of judicial common law should be abandoned. *See Kirtsaeng*, 133 S. Ct. at 1363 ("'[W]hen a statute covers an issue previously governed by the common law,' we must presume that 'Congress intended to retain the substance of the common law.'" (alteration in original) (quoting *Samantar v. Yousuf*, 560 U.S. 305, 320 n.13 (2010)); *United States v. Texas*, 507 U.S. 529, 534 (1993) ("In order to abrogate a common-law principle, the statute must 'speak directly' to the question addressed by the common law."). Thus, the *exhaustion doctrine itself* constrains the patentee's choices. The Federal Circuit cannot diminish this doctrine's independent legitimacy by ignoring its

common-law origins any more than it is free to eliminate by judicial fiat patent law's doctrine of equivalents or the equitable defenses of laches and estoppel.

Though the Federal Circuit acknowledges that the "authority" in § 271(a) can come from sources other than the patentee, such as the patent law itself, it denies that the exhaustion doctrine could be such a source, simply because it is uncodified. Pet. App. 22a. ("Nothing in the Act supersedes the § 271 requirement of authority from the patentee . . . .").

Under the Federal Circuit's parsing of the word "authority," the exhaustion doctrine is reduced to a species of implied license. But this Court has clarified that implied license is a separate defense from that of exhaustion, even under the 1952 Act. *See Quanta Comput., Inc. v. LG Elecs., Inc.*, 553 U.S. 617, 637 (2008) ("[T]he question whether third parties received implied licenses is irrelevant because Quanta asserts its right to practice the patents based not on implied license but on exhaustion."). Therefore, exhaustion must be more than just a presumption of authority with no independent force.

The Federal Circuit's misunderstanding of exhaustion caused it to mistakenly hold that a patent grants to its owner unlimited power to exclude any and all uses of the patent as long as the restrictions are "within the scope of the patent grant," contrary to this Court's consistent rejection of post-sale restraints to prevent patent exhaustion.

In recasting this Court's precedent as narrowly supporting exhaustion only as a presumption of authority subservient to the purposes of antitrust,

the Federal Circuit also short-changes the important public policies underlying exhaustion doctrine.

This Court should hear this case to restore the exhaustion doctrine to its proper scope and ensure that patentees enjoy only those rights the law entitles them to.

A. The Federal Circuit's Enforcement of Post-Sale Restraints to Evade Patent Exhaustion Is Inconsistent with This Court's Precedent

The Federal Circuit's holding in *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992), reaffirmed en banc below, was contrary to Supreme Court precedent when it was decided, and this Court's opinion in *Quanta* further undermined *Mallinckrodt*'s foundation.

1. Since *Bloomer v. McQuewan*, 55 U.S. 539 (1852), this Court has acknowledged that when a patented item "passes to the hands of the purchaser, it is no longer within the limits of the monopoly. It passes outside of it, and is no longer under the protection of the act of Congress." *Id.* at 549. In numerous decisions applying the exhaustion doctrine prior to 1952, this Court ruled that post-sale restrictions could not prevent patent exhaustion. *See, e.g., United States v. Univis Lens Co.*, 316 U.S. 241, 252 (1942) ("The first vending of any article manufactured under a patent puts the article beyond the reach of the monopoly which that patent confers."); *see also* Pet. App. 106a-109a (Dyk, J., dissenting) (collecting cases); Pet. 12-13 (same). The Federal Circuit's view of exhaustion as a presumption, within a patentee's control, clashes with this Court's explanation that sale takes an

article "outside" or "beyond the reach of the monopoly."

In discussing these cases, the Federal Circuit misses the forest for the trees. Because it could not find in these precedents an exact analog of the facts here at issue—a sale of a patented article made subject to use restrictions that don't facially violate antitrust—the court limited exhaustion doctrine to those factual circumstances. Pet. App. 49a-56a. But it is not the role of the Federal Circuit to confine this Court's consistent rulings to their facts in order to cabin the scope of exhaustion. In any event, the reasoning of this Court's exhaustion cases is not so limited.

Three examples are illustrative. In *Motion Picture Patents*, the Court held that the patentee could not, by way of a notice attached to the patented projector, require that it be used only with the patentee's films (on which the patent had expired) on pain of patent infringement. *Motion Picture Patents*, 243 U.S. at 518. The court below, as in *Mallinckrodt*, distinguished *Motion Picture Patents* by relegating its holding to cases involving patent misuse. Pet. App. 53a-54a. But *Motion Picture Patents* emphasized longstanding policies, discussed above, against personal property servitudes and double recovery. It noted that patent law did not allow a patentee

> to send its machines forth into the channels of trade of the country subject to conditions as to use or royalty to be paid, to be imposed thereafter at the discretion of such patent owner. The patent law furnishes no warrant for such a practice, and the cost,

> inconvenience, and annoyance to the public which the opposite conclusion would occasion forbid it.

Motion Picture Patents, 243 U.S. at 516. Despite its facts, this case cannot be viewed solely as a patent misuse case; rather these principles are broadly applicable to exhaustion cases.

Another example of the Federal Circuit's unduly narrow reading is *Bloomer v. Millinger*, 68 U.S. 340 (1863). The Federal Circuit reasoned that the Court's reference "to a constructor or purchaser of a patented machine having '*also* acquired the right to use and operate it during the lifetime of the patent," meant "the Court implicitly recognized that a purchaser might *not* acquire a full right to use an acquired article." Pet. App. 36a. But any affirmative articulation implies the possibility of a negative—that doesn't undermine the force of the affirmative statement.

Finally, the Federal Circuit dismissed the language in *Adams* that "the sale by a person who has the full right to make, sell, and use such a machine carries with it the right to the use of that machine," *Adams*, 84 U.S. at 455, and *Keeler* that "one who buys patented articles of manufacture from one authorized to sell them becomes possessed of an absolute property in such articles," *Keeler*, 157 U.S. at 666, as pertaining only to the "unconditional" sales described in those cases, Pet. App. 29a, 36a, 50a-51a. But as the dissent points out, nineteenth century "conditions" on sale more often connoted conditions on title transfer, not conditions on use. Pet. App. 115a-116a (Dyk, J., dissenting).

2. This Court made clear in *Quanta* that this common-law exhaustion precedent survived the enactment of the 1952 Patent Act.

In *Quanta*, LGE licensed Intel to make and sell components substantially embodying its patents, but disclaimed any license to Intel's customers to combine those components with non-Intel parts. *Quanta*, 553 U.S. at 623. This Court rejected LGE's patent infringement claims against Intel's customers because LGE had unconditionally authorized Intel's sales, notwithstanding LGE's attempted post-sale restriction. *Id.* at 636-37. This Court's broad articulation of exhaustion doctrine—that "the initial authorized sale of a patented item terminates all patent rights to that item," *id.* at 625—cannot be reconciled with *Lexmark*'s rule that parties can freely forestall exhaustion with the type of sticker notice present here.

First, it is clear throughout *Quanta* that this Court was relying on its own exhaustion precedent, not "interpret[ing] . . . § 271(a)'s 'without authority' language." Pet. App. 24a. The opinion opens with the declaration: "For over 150 years this Court has applied the doctrine of patent exhaustion to limit the patent rights that survive the initial authorized sale of a patented item." *Quanta*, 553 U.S. at 621. It does not even cite § 271. Thus, as recently as 2008, this Court cemented exhaustion as an independent, judicially created, common-law doctrine that has been continuously applied for over a century—not a gloss on the 1952 Act's text.

Second, while the court below cabined *Univis*'s holding to price-maintenance cases, Pet. App. 54a-55a, *Quanta* clarified that *Univis* applies more

broadly. The *Quanta* Court made clear that "*Univis* governs this case," despite the absence of allegations of patent misuse or anticompetitive behavior in *Quanta*. *Quanta*, 553 U.S. at 631. Per *Quanta*, *Univis* stands for the much broader proposition that an "authorized sale of an article which is capable of use only in practicing the patent is a relinquishment of the patent monopoly with respect to the article sold." *Id.* (quoting *Univis*, 316 U.S. at 249).

Third, the *Quanta* decision endorsed the principle that the exhaustion doctrine exists to broadly prohibit restraints on alienation. Though articulated in a part of the opinion about the exhaustibility of method patents, this Court recognized the "danger" of a contrary holding which would permit an "end-run around exhaustion." *Quanta*, 553 U.S. at 630. It refused to accept a rule where, "although Intel is authorized to sell a completed computer system that practices the LGE Patents, any downstream purchasers of the system could nonetheless be liable for patent infringement" because such a rule would "violate the longstanding principle that, when a patented item is 'once lawfully made and sold, there is no restriction on [its] use to be implied for the benefit of the patentee.'" *Id.* (quoting *Adams*, 84 U.S. at 457) (alteration in original) (emphasis omitted). This Court's policy concerns against personal property servitudes have equal force when applied to post-sale restrictions, which also serve to restrain the downstream use of lawfully made and sold items.

3. While this Court in *Quanta* acknowledged the continuing validity of *General Talking Pictures Corp. v. Western Electric Co.*, 305 U.S. 124 (1938), that

case is consistent with overruling *Mallinckrodt*. *General Talking Pictures* merely stands for the unremarkable proposition that (1) a patent owner may place restrictions on a manufacturer-licensee as to who is authorized to purchase a patented product, and (2) one who knowingly purchases from a licensee who is violating its license is as liable as the licensee.

In *General Talking Pictures*, the Transformer Company had a license to sell amplifiers only for home use—another company was granted exclusive rights to sell for commercial use. *Id.* at 125-26. Transformer Company, knowing that General Talking Pictures would use them commercially, nevertheless sold amplifiers to General Talking Pictures, which in turn knew that the sale violated Transformer Company's license. *Id.* at 126. The Court held, unsurprisingly, that Transformer Company was an infringer for violating its license. *Id.* The Court also held that "as Pictures Corporation ordered, purchased, and leased [the amplifiers] *knowing* the facts, it also was an infringer." *Id.* (emphasis added). The case does not stand for the proposition that a term in a license between the patentee and a licensee binds all subsequent purchasers in patent law. If the case were simply one in which the sale was treated as unauthorized, that fact alone—that Transformer Company made an unauthorized sale—would be enough to hold that exhaustion doctrine did not apply. In that case, General Talking Pictures would be strictly liable as though it had purchased from a direct infringer, and its knowledge would be irrelevant. But the Court emphasized General Talking Pictures' "knowing the facts," citing it as the reason for liability. *Id.* at 126-27. Thus, the case is better understood as saying

that General Talking Pictures *induced* Transformer Company's infringement, and therefore was indirectly liable.

The decision below expanded *General Talking Pictures* to hold that patent liability can attach to downstream purchasers as well as manufacturer-licensees. Pet. App. 43a-44a. Even apart from the fact that the Federal Circuit's reading elevates *General Talking Pictures* over every other exhaustion case this Court has decided, there is a perfectly good reason for this Court to enforce patent remedies against licensees who make and sell patented products, but not against simple buyers. A manufacturer must obtain a patent license in any event, and that license necessarily controls the number of products it can put into the stream of commerce. If it did not, any patentee who turned to a third party to manufacture its goods would lose control over how many of the patented goods were made and sold at all. If the patentee itself makes the goods and sells them, by contrast, it has by definition chosen to release those goods—and only those goods—into the market.

B. The Federal Circuit's Conception of Post-Sale Restraints Mistakes the Place of Exhaustion Within the Broader Doctrine

1. The Federal Circuit's Exhaustion Framework Distorts Its Application of Contract and Antirust Law

The Federal Circuit repeatedly states that post-sale restrictions must be "otherwise lawful" to be enforceable, Pet. App. 19a, 25a, 26a, 33a, 40a, 55a, 62a, by which it means that the restrictions by their

terms must comport with, among other things, ordinary commercial and antitrust law, *id.* at 27a (citing *Mallinckrodt*, 976 F.2d at 703). But subordinating the determination of the limits of a patentee's rights to these other doctrines denies that the exhaustion doctrine has an independent public policy justification. Furthermore, the existence of a patent appears to influence the Federal Circuit's interpretation of these other doctrines in a way that unnecessarily favors the patentee and harms the public interest.

a. Preventing patentees from violating contract or antitrust law when they impose post-sale restrictions may ensure that the goals of those other laws are served. But the exhaustion doctrine's purpose extends beyond promoting competition and allowing parties to make enforceable commitments. Exhaustion limits the rights of patentees to only what is required to incentivize innovation and avoids restraints on alienation that would prevent patented goods from diffusing through the channels of trade to the public benefit. Contract and antitrust law do not suffice to uphold the rationale of exhaustion.

Allowing post-sale use restrictions to encumber patented goods with servitudes enforceable via patent remedies produces consequences representing an "inconvenience and annoyance to the public" that the *Keeler* Court thought "too obvious to require illustration." *Keeler*, 157 U.S. at 667. Those consequences demonstrate exhaustion's importance beyond competition and commercial policy.

The Federal Circuit's interpretation would allow a patentee to unilaterally impose any restriction it wished on any product it sold, and have that

restriction bind the first purchaser and any subsequent purchasers as a matter of patent, not contract, law. As it stands, a patentee could sell its pharmaceuticals "only to be swallowed whole," or a radio "only for use on Sundays," and sue someone who splits his pills or forgets the day of the week, for patent infringement—even willful patent infringement. Less fancifully, a patentee could sell a car with a "no resale" restriction and shut down the market for used cars. Or, similar to the facts here, a patentee could sell a reusable product with a restriction on reuse, and sue anyone who recycled the product for patent infringement. Under the Federal Circuit's theory, the patentee could sue even a downstream purchaser who had no notice of any such restriction. That is the consequence of treating a violation of any post-sale restriction as patent infringement (a strict liability offense), rather than just a contractual breach. It is no answer to say that patentees will not abuse this power and will impose only reasonable restrictions. Whether or not this Court considers a requirement to throw away a perfectly functional product rather than refilling it reasonable, a law that depends for its legitimacy on plaintiffs choosing not to enforce it is unsound—causing "uncertainty," "selective enforcement," and "disrespect" for the law. *Kirtsaeng*, 133 S. Ct. at 1366.

b. The Federal Circuit below enforced Lexmark's post-sale restrictions without even determining whether there was a valid contract between the parties. The court insisted that the parties stipulated that notice of the conditions was adequate, Pet. App. 12a, 14a, 60a, but nowhere did the Federal Circuit acknowledge that notice alone is not enough

to create a valid contract—at a minimum, a meaningful manifestation of assent is also required. *See* Mark R. Patterson, *Must Licenses Be Contracts?: Consent and Notice in Intellectual Property*, 40 Fla. St. U. L. Rev. 105, 123-24 (2012) (discussing the invalidity of *Mallinckrodt*'s label license as a contractual matter); *see also UMG Recordings, Inc. v. Augusto*, 628 F.3d 1175, 1182-83 (9th Cir. 2011) (holding that a restrictive label license attached to a promotional CD was in fact a title transfer subject to first-sale doctrine because merely "accept[ing]" an unsolicited item did not constitute "acceptance" of the license terms). The Federal Circuit has recognized elsewhere that a "label license" is subject to scrutiny under ordinary contract law principles. *See, e.g.*, *Hewlett-Packard v. Repeat-O-Type Stencil Mfg. Co.*, 123 F.3d 1445, 1453 (Fed. Cir. 1997) ("[A] seller's intent, unless embodied in an enforceable contract, does not create a limitation on the right of a purchaser to use, sell, or modify a patented product . . . ."). But the Federal Circuit decided *Lexmark* based on notice alone, without analysis even of which state's contract law would govern. *Lexmark* thus exposes another danger of the Federal Circuit's revisionist theory of exhaustion doctrine: patentees may enlist the federal courts to grant powerful patent law remedies based on unilateral post-sale restrictions otherwise unenforceable under contract law.

The Federal Circuit's approach permits precisely the sort of restraint on alienation against which this Court has repeatedly warned: even unsuccessful efforts to impose contract terms on a buyer now impose the much greater restrictions of patent law not just on the buyer, but on the world at large.

c. As with contract law, the Federal Circuit's focus on the "scope of the patent" distorts its analysis of post-sale restrictions under antitrust. The patent should play no role in the analysis if the patent rights are exhausted. Moreover, this Court has recently affirmed that whether conduct is within the scope of the patent is itself partly a function of antitrust law. *Fed. Trade Comm'n v. Actavis, Inc.*, 133 S. Ct. 2223, 2231 (2013) ("[P]atent and antitrust policies are both relevant in determining the 'scope of the patent monopoly'—and consequently antitrust law immunity—that is conferred by a patent.").

2. This Court Has Repeatedly Indicated That Valid Contract Remedies Can Adequately Protect the Post-Sale Interests of Patent Owners

The Federal Circuit has not only ignored this Court's precedent to allow enforcement of post-sale restrictions with patent remedies, but also has refused to heed this Court's frequent admonishments that contract remedies are available and adequate where there is a valid contract.

This Court first identified contract law as the proper framework to enforce post-sale use restrictions in *Keeler*:

> Whether a patentee may protect himself and his assignees by special contracts brought home to the purchasers is not a question before us, and upon which we express no opinion. It is, however, obvious that such a question would arise as a question of contract, and not as one under the inherent meaning and effect of the patent laws.

Keeler, 157 U.S. at 666. Quoting that exact language, this Court in *Quanta* indicated its continued understanding that contracts would be the appropriate remedy. *Quanta*, 553 U.S. at 637 n.7 ("[T]he authorized nature of the sale to Quanta does not necessarily limit LGE's other contract rights. LGE's complaint does not include a breach-of-contract claim, and we express no opinion on whether contract damages might be available even though exhaustion operates to eliminate patent damages." (citing *Keeler* with approval)); *see also Motion Picture Patents*, 243 U.S. at 509 ("The extent to which the use of the patented machine may validly be restricted to specific supplies or otherwise by special contract between the owner of a patent and the purchaser or licensee is a question outside the patent law . . . .").

Contract remedies require privity and generally do not allow parties to obtain injunctions. Those are reasonable limits to impose on patentees seeking to burden downstream purchasers with significant transaction costs and restraints on trade by reaching beyond the patent law limits. And contract remedies put patentees in no worse a position post-sale than the many commercial entities who conduct business without the benefit of a statutory monopoly.

Without this Court's guidance, the Federal Circuit's misunderstanding of the relationship between patent law and other doctrines will persist, allowing patentees to stifle innovation by threatening patent suits for violation of any post-sale restriction, regardless of whether the restriction is valid under contract law.

III. The Federal Circuit's Approach Evades Precedent to Improperly Conclude that International Exhaustion Would Implicate Extraterritoriality

The Federal Circuit's holding in *Lexmark* restricting exhaustion to sales that occur within the physical territory of the United States ignored this Court's precedent rejecting geographic limits on exhaustion. Pet. App. 104a. This Court in *Kirtsaeng* rejected the notion that an international first-sale doctrine in copyright entailed extraterritorial application of U.S. law and emphasized the common-law roots of copyright's first-sale doctrine. *Kirtsaeng*, 133 S. Ct. at 1363.

1. Departing from this Court's precedent, the Federal Circuit claimed below that "sales in foreign markets should not be presumed to confer on the buyer authority to displace sales in American markets" because "[p]atent law is especially territorial, and laws vary considerably from country to country." Pet. App. 86a. But the territorial nature of patent law is hardly unique: "copyright laws do not have any extraterritorial operation," either. 4 M. Nimmer & D. Nimmer, *Nimmer on Copyright* § 17.02, at 17-18 (2012). *Kirtsaeng* rejected the view that international exhaustion requires extraterritorial application of U.S. copyright law, holding the Copyright Act "applicable" to anything "subject to protection" under it, including "unpublished works 'without regard to the nationality or domicile of the author,' and works 'first published' in any one of the nearly 180 nations that have signed a copyright treaty with the United States." *Id.* at 1359 (emphasis omitted) (quoting 17

U.S.C. §§ 101, 104 (2006)). There is no basis for a different conclusion under patent law.

International patent exhaustion does not entail extraterritorial application of U.S. law because it does not regulate foreign sales or foreign conduct—it merely affects how subsequent U.S. activities are regulated. *See LG Elecs., Inc. v. Hitachi, Ltd.*, 655 F. Supp. 2d 1036, 1047 (N.D. Cal. 2009) (collecting Supreme Court and Circuit cases). Moreover, other areas of patent law recognize that foreign conduct can affect subsequent U.S. activities. The novelty requirement for patentability provides that foreign use or sale of an invention can foreclose an inventor's ability to obtain U.S. patent rights. 35 U.S.C.A. § 102(a) (West 2015). Those foreign uses or sales are not themselves regulated, but nonetheless affect how subsequent U.S. patent applications are regulated.

Furthermore, the legal community has long recognized that the Federal Circuit's rejection of international exhaustion, reaffirmed in the decision below, evades precedent and relies on a misreading of a single case, *Boesch v. Graff*, 133 U.S. 697 (1890). *See, e.g.*, John A. Rothchild, *Exhausting Extraterritoriality*, 51 Santa Clara L. Rev. 1187, 1198-201 (2011) (explaining the Federal Circuit's misinterpretation of *Boesch* and collecting contrary precedent).

2. Patent exhaustion and copyright first-sale are rooted in the same common-law tradition, and they share the same important policy rationales. *Kirtsaeng* noted that commentators as far back as the fifteenth century had recognized "the importance of leaving buyers of goods free to compete with each other when reselling or otherwise disposing of those

goods," *Kirtsaeng*, 133 S. Ct. at 1363 (citing 1 E. Coke, *Institutes of the Laws of England* § 360, at 223 (1628) (commenting on Littleton, Treatise on Tenures (circa 1480)), and that "[t]he common-law doctrine makes no geographical distinctions," *id.* *Kirtsaeng* also recognized that "a geographical interpretation would fail to further basic constitutional copyright objectives, in particular 'promot[ing] the Progress of Science and useful Arts.'" *Id.* at 1364 (quoting U.S. Const. art. I, § 8, cl. 8) (alteration in original). Patent law arises from the same constitutional clause, and similar concerns apply.

The Federal Circuit recently recognized that "copyright cases inform similar cases under patent law." *LifeScan Scotland, Ltd. v. Shasta Techs., LLC*, 734 F.3d 1361, 1375 n.9, 1376 (Fed. Cir. 2013) (citing *Bauer & Cie. v. O'Donnell*, 229 U.S. 1, 13-14 (1913)) (looking to *Kirtsaeng* and the "common policies underlying patent exhaustion and the first-sale doctrine" to hold that an authorized transfer of title exhausted the patent even when the item was given away). Less than three years later, however, the Federal Circuit inexplicably abandoned this position when it decided *Lexmark*, which implicates similar patent exhaustion issues. Pet. App. 68a ("*Kirtsaeng* says nothing about patent law."). Because patent law lacks a statutory pronouncement limiting exhaustion to domestic sales, patent exhaustion is even more informed by the common-law tradition than copyright's codified first-sale doctrine. As the *Kirtsaeng* Court noted, this common-law tradition does not, and logically cannot, support geographical limitations to patent exhaustion.

The international exhaustion rule announced below undermines *Kirtsaeng* and reaches precisely the "absurd result" that the *Kirtsaeng* Court was determined to prevent—namely, a rule where "the copyright owner can exercise downstream control even when it authorized the import or first sale." *Kirtsaeng*, 133 S. Ct. at 1366. The Court was concerned that such a rule "would prevent the resale of, say, a car, without the permission of the holder of each copyright on each piece of copyrighted automobile software" where the car was manufactured abroad with software components purchased from foreign suppliers. *Id.* at 1365. Without international patent exhaustion, the same "absurd result" will persist in patent law. It would even affect many of the same products, such as cars, which contain patented as well as copyrighted components. There is nothing special about patent incentives that justifies different levels of downstream control for patentees than for copyright owners.

This Court should correct the Federal Circuit's unfounded conclusion that international exhaustion requires extraterritorial application of U.S. patent law because it evades precedent and cannot be reconciled with *Kirtsaeng*.

CONCLUSION

For the foregoing reasons, the petition for a writ of certiorari should be granted.

Respectfully submitted,

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